DOCUMENT RESUME

ED 398 423 CE 072 290

TITLE	Economic Change: Separating Fact from Fiction.
INSTITUTION	National Alliance of Business, Inc., Washington, D.C.
PUB DATE	Jun 96
NOTE	5p.
AVAILABLE FROM	National Alliance of Business, 1201 New York Ave., N.W., Ste. 700, Washington, DC 20005.
PUB TYPE	Information Analyses (070) -- Journal Articles (080)
JOURNAL CIT	Workforce Economics; v2 n2 p3-6 Jun 1996
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Dislocated Workers; Economic Change; Employer Employee Relationship; Employment Opportunities; *Employment Patterns; *Employment Practices; *Job Layoff; Job Training; *Organizational Change; Postsecondary Education; *Structural Unemployment

ABSTRACT

Although the general perception in the United States may be that downsizing in companies is pervasive and increasing, the facts show a slowing of the trend in downsizing and a net gain in employment. Many workers have found new jobs at or near their former pay rates, although only half of older workers are able to find jobs comparable to the ones they lost. The persistent anxiety among U.S. workers results because today's job eliminations tend to be permanent and white collar, caused by companies reengineering to meet changing economic conditions. More and more workplace restructurings reflect strategic or structural company decisions, with fewer resulting from downturns in business. Company responses include outplacement services, extended severance pay, extended health coverage, and job retraining. Companies that provide training after work force reductions see a strong increase in productivity and profits. Public policy should encourage more long-term unemployment insurance coupled with job training and the development of industry-based skills standards. (KC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☐ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL IN OTHER THAN PAPER COPY HAS BEEN GRANTED BY

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)"

ED 398 423

ECONOMIC CHANGE:
SEPARATING FACT FROM FICTION

"The fact is our economy is changing in profound and permanent ways. We can't protect ourselves from these changes. But we can prepare for them."

— U.S. Rep. Richard Gephardt (D-Mo.)

Downsizing may be the most loaded word in America today: The media regularly write stories featuring CEOs who cut payrolls while their companies post record profits; the *New York Times* set up an Internet address to collect stories on downsizing; and Challenger, Gray & Christmas, an outplacement firm headquartered in Chicago, has become famous for creating an economic indicator based on announcements of company layoffs. Not surprisingly, the economic situation is more complex than the headlines would have us believe.

Net Job Gain

Stories about workforce reductions have focused almost exclusively on the statistics showing job loss, but have seldom included the statistics on job creation. The truth is that the U.S. workforce is creating jobs at close to twice the rate it is losing them.

The *New York Times*, for example, recently reported that 43 million jobs have been eliminated from the U.S. workforce from 1979 to 1995 (which, when annualized over this period, represents about 3 percent of the jobs in the labor market in a given year). Yet, it went unreported that the U.S. economy created 70 million jobs over the same period — leading to the addition of nearly 27 million net new jobs to the U.S. labor market. And, since the recession in the early 1990s, nearly 8.5 million net new jobs have been added to the economy, according to the Council of Economic Advisors.

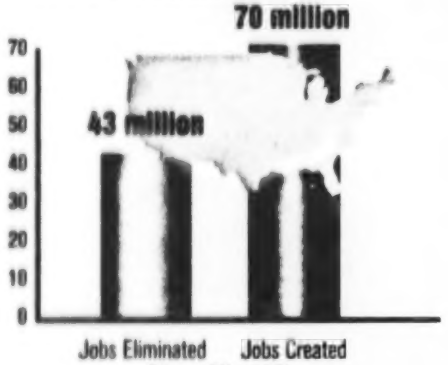
Not only is the number of new jobs created outstripping the number of jobs lost in the overall economy, but in some cases downsizing companies create new jobs faster than they get rid of old ones. The American Management Association (AMA) surveyed 1,000 firms and discovered that the sample as a whole averaged a net workforce increase of 4.5 percent.

These patterns of job creation and job loss are not unusual: Companies historically have added and subtracted from their workforces and gone in and out of business. Davis, Haltiwanger and Schuh, in a 1993 National Bureau of Economic Research Study, estimated that gross job creation and destruction rates are quite high in the manufacturing sector — representing about 10 percent of employment per year based on their analysis of data from 1972 to 1988.

A study by Patricia Anderson and Bruce Meyer published by the Brookings Institution estimated that more than one in five employment relationships are severed every three months. They report that roughly 6 percent of all jobs are permanently destroyed and 7 percent of all jobs are newly created every three months. Other research has found that one-third of the industrial companies on the Fortune 500 list in 1970 disappeared by 1983.

The Upsized U.S. Workforce

The U.S. economy creates jobs at almost twice the rate it loses them.



Displaced Workers

These statistics are no comfort to the thousands of workers who have been displaced, however. What happens to these employees?

CE072290

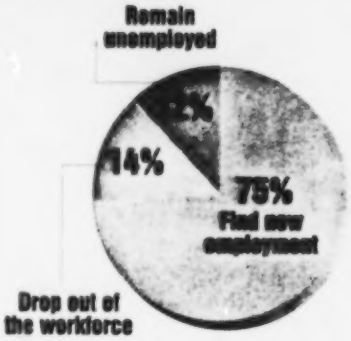
BEST COPY AVAILABLE

The data show that many workers are finding new employment at or near their former salaries, especially if they are young or highly trained.

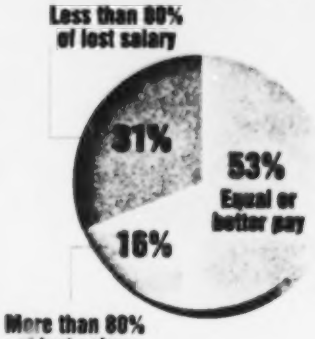
According to the Displaced Worker Survey done by the Bureau of Labor Statistics (BLS) 75 percent of displaced workers find new employment: Just over 12 percent remain unemployed, and the remaining 14 percent drop out of the workforce. Workers over the age of 55 (about 19 percent of displaced workers in 1991-92) have a tougher time. About half of these workers find new jobs, another 35 percent drop out of the labor force and 13 percent remain unemployed.

The Good News About Downsizing

75 percent of downsized workers find new jobs ...



... and more than half find jobs with equal or higher pay.



NOTE: Due to rounding, the chart adds up to 101%.

Source: Bureau of Labor Statistics, Displaced Worker Survey

Those who find new jobs don't always have to take lower pay, although median weekly earnings for reemployed workers decline by 8 percent and earnings losses tend to be persistent over time. An in-depth look shows that 53 percent found jobs paying wages equal to or more than their previous salary. Another 16 percent found jobs paying within 20 percent of their previous salary. The remaining 31 percent were in jobs paying 80 percent or less of their prior earnings.

Research by Ruhm, Topel and by Jacobson, LaLonde and Sullivan find that earnings losses for displaced workers are persistent over time. This is especially true for less-educated workers, and for those experiencing multiple displacement spells. For example, for those separated from AT&T in the Midwest, research shows that workers with less education were twice as likely to report a decline in household income greater than $5,000 a year.

Highly skilled workers, however, have more success in finding new jobs. A study by Manchaster Partners International of displaced bank executives found that more than 80 percent of these executives landed in positions equal to or higher than their previous job — while only 19 percent ended up in lower status jobs.

Remaining in the same field also improves workers' chances of getting a comparably paid job: A 1995 study by Ann Huff Stevens of Rutgers University found that workers remaining in their industry or occupation experience a more rapid recovery in earnings compared to workers who changed industries or occupations.

This data illustrates the importance of industry-based skill standards and company-to-company networks to help workers adjust to downsizing and change. With portable skill standards and networking, workers are more likely to find comparably paid jobs. Novell, for instance, certifies network engineers, allowing workers to move more easily within the industry and among industries using computers. Several companies in the Silicon Valley, including Apple, Sun Microsystems, Raychem, 3 COM and 200 others, participate with the nonprofit Career Action Center. The Center helps companies and employees cope with the rapidly changing environment by improving their skills and ability to adapt

On the whole, younger workers find jobs of equal or higher pay more easily. Older workers are more likely to have firm-specific human capital skills that may be less marketable to other companies, as well as higher salaries due to seniority.

Falling Displacement Rates

Ironically, the recent attention paid to downsizing may already be behind the curve. A closer look suggests that the highest levels of downsizing due to reengineering are behind us.

The AMA survey on downsizing shows a decline in the percentage of companies eliminating jobs — from nearly 56 percent in the 1990-91 period to 50 percent in the 1994-95 period — and a decline in the percent of the workforce affected by these reductions. Some 9.6 percent

of the workforce was downsized in 1990-91, but 7.7 percent of the workforce was downsized in 1994-95.

Data collected by Challenger, Gray & Christmas shows a similar pattern.

Year	Employees affected by announced layoffs
1993	615,186
1994	516,069
1995	439,882

Unfortunately, data about job loss over a longer period are sparse — but what we do have shows that job loss has been stable over time (see box below). For instance, the displacement "rate" (calculated by dividing the number of displaced workers in a specified worker group by a tenure-adjusted, two-year estimate of employment for the same worker group) for workers with more than three years of tenure was stable: In the 1981-82 period the displacement rate was 3.9 versus 3.8 in 1991-92 (both recessionary periods), according to the BLS Displaced Worker Survey. Including all workers regardless of tenure, the displacement rate fell from 5.7 in the 1981-82 period to 4.8 in 1991-92.

The share of companies that have actually downsized has fallen, according to the AMA. Companies reporting net job losses decreased from 32.6 percent in 1992-93 to 27.3 percent in 1994-95. The net change in the workforce in companies reporting job elimination has also fallen. Over the 1994-95 period, the net change in the workforce was -1.1 percent, compared to -7.8 percent in the 1990-91 period.

Not only is the displacement rate falling but it is likely to continue to fall: A survey by the Wirthlin Group for Deloitte & Touche, for example, reports that two-thirds of Fortune 1000 company senior executives say that they are not planning on downsizing in the next 12 to 18 months.

Sparse Job Loss Data

The U.S. Bureau of Labor Statistics, which conducts the Displaced Worker Survey, began conducting the surveys comparatively recently in 1984 (and every two years thereafter). The American Management Association (AMA) surveys on downsizing cover the 1990-95 period only. The Bureau of Labor Statistics has reinstated the Mass Layoff Statistics program but only has data covering the second and third quarters of 1995.

Anxiety in the Workforce

If the United States has experienced net job growth, a stable history of job loss in the recent past, and good reemployment rates, what is behind the tone of the recent downsizing stories? Why is there a pervasive sense of anxiety among U.S. workers?

Although the United States has always experienced job loss, it was typically due to an economic downturn that sent blue-collar workers home only as long as the recession lasted. Today, job elimination tends to be permanent and white-collar, because it is caused by companies reengineering to meet changing economic conditions. Deregulation, technology and competition are now driving the economy.

This recent shift in job loss patterns is part of the reason the workforce is so anxious.

Displacement rates by industry show the shifting pattern. For the manufacturing sector, displacement rates fell from 8.2 in the 1981-82 period to 6.9 in 1991-92. At the same time, displacement rates for some non-manufacturing industries have risen sharply. In the finance, insurance, and real estate sectors, for example, displacement rates quadrupled; rising from 1.6 in the 1981-82 period to 5.6 in 1991-92. Displacement rates also rose in the wholesale and retail trade sector and the service sector.

In terms of occupations, displacement rates for blue-collar occupations fell from 7.3 in 1981-82 to 5.2 in the 1991-92 period. Displacement rates for white-collar occupations rose from 2.6 in 1981-82 to 3.6 in the 1991-92 period. The displacement rate for executive, administrative and managerial occupations nearly doubled, rising from 2.5 in 1981-82 period to 4.7 in the 1991-92 period.

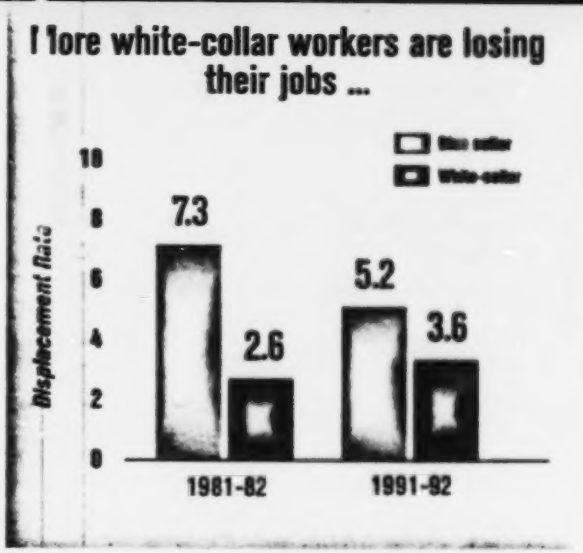
More and more workplace restructurings reflect strategic or structural company decisions. Less than 44 percent of the companies responding to the AMA survey cited a downturn in business as a reason for their restructuring over the 1994-95 time period.

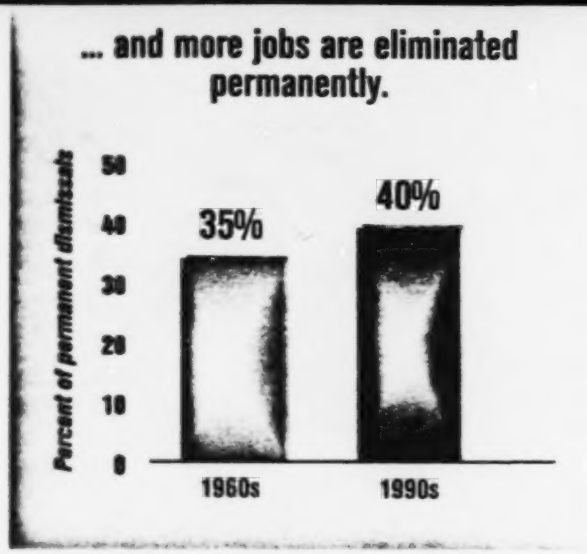
In contrast, during the recession in the early 1990s, nearly 75 percent of the companies cited business conditions as one of the reasons prompting the job cuts. On the other hand, 68 percent of the companies reported organizational restructuring and another 49 percent cited reengineering of business processes as prompting their decision to cut jobs in this most recent period.

These results are reflected in other work commissioned by the U.S. Department of Labor. Henry Farber of Princeton University, using the BLS displaced worker survey, found that the proportion of workers "displaced" because of plant closings has held steady, those displaced because of slack work has moved with the business cycle, and those displaced because their positions or shifts were abolished has increased over the last 10 years.

BEST COPY AVAILABLE

The Changing Nature of Job Loss





A study by Robert Velletta of the Federal Reserve Bank of San Francisco found that the proportion of unemployment attributable to "permanent dismissals" has crept upward: From about 35 percent in the late 1960s to about 40 percent in the 1990s.

Effective Responses

To some extent, companies are already helping workers respond to changing unemployment patterns. Over the last five years, companies have been providing more services to workers to ease the transition, according to the AMA study. Three-quarters of companies eliminating jobs now provide outplacement services, compared to just under two-thirds in the early 1990s. And more companies also are providing extended severance pay packages, extended health coverage and job retraining.

Companies planning large-scale layoffs now let affected communities know about the downsizing quickly (as required in the Warn Act), enabling workers to enroll in training and assistance programs well before the impact.

The key to making downsizing work for both workers and business is training. Workers who receive training are more likely to successfully reenter the job market. (For details, see the July/August 1995 issue of *Workforce Economics*.)

But even more interesting is the relationship between productivity, profits and training in a company that has undergone downsizing.

The data from the AMA survey show a strong and positive relationship between training, productivity and profits after a workforce reduction. Companies that increased training investments were twice as likely to report increased profits and productivity than firms cutting training investments in both the short and long run. As companies continue to reengineer and reorganize the workplace, investing in workforce training will become even more important.

On the policy side, unemployment insurance should be adjusted to match the changing patterns of unemployment. Unemployment insurance must not compensate for temporary, short-term unemployment only; it must now include a retraining component. Enhancing the portability of benefits for transitioning workers would also increase the efficiency of the labor market.

Finally, developing industry-based skill standards, highlighting best-practice approaches and assisting in the development of "company-to-company" employment networks are important.

BEST COPY AVAILABLE